Fund Balance Policy

City of Mount Vernon

New York

City Council

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I. PURPOSE

The purpose of this Fund Balance Policy (the "Policy") is to establish a key element of the financial stability of the City of Mount Vernon ("City") by defining and setting guidelines to maintain a prudent level of fund balance. Unassigned fund balance is an important measure of economic stability. It is essential that the City maintains adequate levels of unassigned fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, and unanticipated expenditures. A Fund Balance Policy protects the City's creditworthiness and provides for adequate cash flow needs. Fund balance essentially provides taxpayers with a cushion against unforeseen and extraordinary events.

The Government Finance Officers Association ("GFOA") recommends that local governments establish a policy to maintain *reasonable* levels of unexpended surplus funds in their General Funds and other principal funds to hedge against unanticipated expenditures and/or revenue shortfalls.

II. DEFINITIONS

Fund Equity – A fund's equity is generally the difference between its assets and its liabilities.

Fund Balance – An accounting distinction is made between the portions of fund equity that are spendable and non-spendable. The City records fund balances in accordance with GASB 54 which divides fund balance into the five (5) following classifications:

A. **Non-spendable Fund Balance –** Includes amounts that are not in a spendable form or are required to be maintained intact, including, but not limited to, prepaid items, inventories, and long-term portions of loans receivable, financial assets held for resale and principal of endowments.

B. **Restricted Fund Balance –** Includes amounts that can be spent only for the specific purposes stipulated by external resource providers either constitutionally or through enabling legislation.

C. **Committed Fund Balance –** Includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally.

D. **Assigned Fund Balance –** Comprises amounts *intended* to be used by the government for specific purposes. Intent can be expressed by the governing body or by an official or body to which the governing body delegates its authority. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

E. **Unassigned Fund Balance –** The residual classification of the General Fund includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose (i.e. Rainy-Day Fund).

III. UNASSIGNED FUND BALANCE

When possible, the City shall maintain a level of unassigned fund balances of ten percent (10%) of the prior year's operating expenditures made from its General and Enterprise funds.

To the extent the City utilizes its unassigned fund balance, the City shall use these funds either for (i) non-recurring expenses that promote important policy objectives set forth by the City Council; or (ii) extraordinary operating and capital purposes that could not be anticipated, and which otherwise cannot be financed with current revenues in the annual operating budget. Such purposes include, but are not limited to, financing emergency capital repairs, offsetting an unexpected economic downturn, covering an unanticipated or excess shortfall in revenues or a spike in expenses, and/or providing necessary resources for emergencies.

IV. RESERVE FUNDS

As financial circumstances warrant, the City shall look to establish and fund a number of formal reserve funds pursuant to the New York State General Municipal Law, the City Charter and other applicable rules and regulations.

V. REPLENISHMENT

In fiscal years where the City's unassigned fund balance falls below the level of ten percent (10%) set forth above, the City shall develop a plan to replenish its unassigned fund balance by direct appropriation commencing with the next operating budget. The City will appropriate an available amount of at least twenty-five percent (25%) of the difference between its current level of unassigned fund balance and the minimum amount under this Policy, such that the minimum level of unassigned fund balance would be attained over a reasonable period. To the extent that a direct appropriation in the amount of twenty-five percent (25%) is not possible in any particular fiscal year, the City Comptroller shall develop a strategy and recommend to the City Council to restore the fund balance to the minimum level in some other reasonable period of time.

VI. ANNUAL REVIEW & AMENDMENTS

On an annual basis, or as deemed necessary, the City Council shall review this Policy and shall approve any revisions by formal resolution.

ADOPTED: